

Service Date: November 10, 1987

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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IN THE MATTER of the Application)	
of MIDVALE WATER COMPANY for)	UTILITY DIVISION
Authority to Increase Rates and)	DOCKET NO. 87.5.24
Charges for Water Service in its)	ORDER NO. 5292a
Eureka, Montana Service Area.)	

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INTERIM RATE ORDER

BACKGROUND

1. On January 23, 1987, the State Department of Health and Environmental Science filed a complaint in state district court seeking an order that Midvale Water Service bring its water system up to the standards set by that Department. Under the terms of a Consent Decree, Midvale Water Company must bring its entire system up to the standards detailed in the Ten States Water Compact. Midvale applied to the Department of Natural Resources and Conservation, Water Development Bureau, (DNRC), pursuant to 85-1-608, MCA, for a loan to pay for the system improvements approved by the Department of Health. The total loan sought is approximately \$95,500.

2. DNRC approved the loan application. DNRC has approved loans for municipal water utilities in the past, but this loan

represents the first loan to a private water utility. As a condition of the loan, DNRC imposed a condition that it also imposes on municipal water utilities -- the utilities rates must be increased in an amount sufficient to service the principal and interest of the loan. It is DNRC's policy to release loan funds as work proceeds. Midvale has sought authorization for the release of approximately \$15,000 of the \$95,500. In a prior interim order this Commission authorized a rate increase sufficient to service approximately \$15,000. Midvale now is seeking the release of an additional \$8,000 from DNRC and seeks a second interim rate increase from this Commission to service the \$8,000.

FINDINGS OF FACT

3. On May 22, 1987, Midvale Water Company (Applicant or MWC) filed an application with this Commission for authority to increase water rates and charges for its Eureka, Montana customers on a permanent basis by approximately 93.0%. This constitutes a revenue increase of approximately \$11,626.

4. On August 5, 1987, following a notice of public hearing, a hearing was held in the County Annex Building, Eureka, Montana. For the convenience of the consuming public, there was also a night session, held in the Lincoln Electric Coop, Meeting Room,

Eureka, Montana. The purpose of the public hearing was to consider the merits of the Applicant's proposed water rate adjustment.

5. At the close of the public hearing, the Applicant made a motion for interim rate relief. The Applicant did not specify an amount of interim rate.

6. On September 9, 1987, the Commission having considered the merits of the Applicant's interim request, issued Order No. 5292 authorizing the Applicant interim rate relief. Order No. 5292 authorized the Applicant to obtain \$15,000, for construction funding and payment of engineering fees, from loan proceeds administered by the Montana Department of Natural Resources and Conservation (DNRC).

7. On October 21, 1987, this Commission received a letter from O. C. Thatcher, principal owner of Midvale Water, requesting authorization to obtain an additional \$8,000 in construction funds from DNRC. If the Commission gives the Applicant authority to obtain additional construction funds, additional interim rate relief will be required to service the increased debt obligation.

8. In his letter, Mr. Thatcher alleges that the construction cost estimate for "Upper Pumphouse" improvements totalling \$7,962, presented during the hearing, was erroneous. Mr. Thatcher indicates in his letter that prices contained in the cost estimate were listed at wholesale, that the estimate failed to include the cost labor and that some items necessary for the proper completion of "Upper Pumphouse" improvements were totally omitted from the estimate.

9. As noted in Order No. 5292, MWC and the Montana Department of Health and Environmental Sciences (DHES) have entered into a

Consent Decree that requires MWC to make certain improvements to its water system. During the week of October 26, 1987, Rick Rosa, of the DHES, conducted an on sight inspection to ascertain the construction progress on the mandated improvements. As part of his inspection Mr. Rosa examined the need for construction of items outlined by Mr. Thatcher in his letter of October 20, 1987. Mr. Rosa in a discussion with the Commission staff indicated that it was his belief that the majority of the ascertations made by Mr. Thatcher in his letter were correct. He further indicated that the additional \$8,000 construction cost to complete the "Upper Pumphouse" improvements, to comply with the terms and conditions of the Consent Decree, appeared reasonable.

10. Based on the preceding Findings of Fact, the Commission finds the Applicant should be given authority to obtain an additional \$8,000 of construction funds from loan proceeds administered by the DNRC. This funding authorization is in addition to and not in lieu of the funding authorized in this Commission's Order No. 5252. The total construction funding authorized to date is \$23,000, \$15,000 from Order No. 5252 and \$8,000 in this Order.

11. As of the date of this Order, MWC has not filed increased rates to service its debt obligation with DNRC. The interim relief authorized in this Order should be equal to the Applicant's cost of servicing its total debt obligation, \$23,000, with DNRC. The Applicant will provide the Commission with a copy of DNRC's calculation of annual debt cost on the \$23,000 loan amount authorized and this shall become the annual interim revenue increase authorized by the Commission.

12. The Applicant shall generate the increased annual revenue authorized, by increasing all rates and charges on the basis of a uniform percentage.

13. In this Docket, the Applicant has indicated that the total cost of constructing all improvements necessary to comply with the terms and conditions of the Consent Decree will not exceed \$95,524. The fact that the Applicant has found it necessary to request additional interim rate relief, to complete construction of the "Upper Pumphouse" improvements because of errors or omissions in its construction cost estimate, brings into question the reliability of the cost estimate. The fact that the cost estimate is questionable compels the Commission to alert the Applicant that the total construction cost recognized in the final order for this docket will not exceed \$95,524. If construction costs exceed the estimate presented in this case, the excess costs will have to be the subject of another proceeding before this Commission.

CONCLUSIONS OF LAW

1. Midvale Water Company is a public utility furnishing water service to customers in the Eureka, Montana area, and is subject to the supervision, regulation and control of this Commission pursuant to Section 69-3-102, MCA.

2. Section 69-3-304, MCA, provides in part, "The Commission may in its discretion, temporarily approve increases pending a hearing or final decision."

3. The Commission concludes that the grant of an interim rate increase is just, reasonable and within the discretion granted by Section 69-3-304, MCA.

4. The increase granted herein is subject to rebate should the final order in this Docket determine that a lesser increase is warranted.

ORDER

THEREFORE THE MONTANA PUBLIC SERVICE COMMISSION ORDERS THAT:

1. Midvale Water Company is hereby granted authority to implement on an interim basis increased rates for its Eureka, Montana customers. The amount of the interim rate increase shall be equal to the annual cost of debt service on the \$23,000 loan as calculated by the Department of Natural Resources and Conservation.

2. The increased revenue authorized herein shall be generated by increasing all rates and charges on the basis of a uniform percentage.

3. The interim rate relief granted in this Order is to be effective upon Commission approval, which will occur once the Applicant has complied with the requirements of this order.

DONE IN OPEN SESSION this 9th day of November, 1987 by a vote of 5 - 0 at Helena, Montana.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

CLYDE JARVIS, Chairman

HOWARD L. ELLIS, Commissioner

TOM MONAHAN, Commissioner

DANNY OBERG, Commissioner

JOHN B. DRISCOLL, Commissioner

ATTEST:

Ann Purcell
Commission Secretary

(SEAL)

NOTE: Any interested party may request that the Commission reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.